

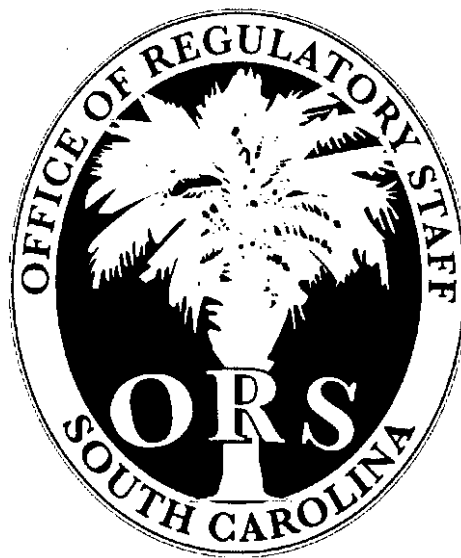
THE OFFICE OF REGULATORY STAFF

SURREBUTTAL TESTIMONY

OF

CHRISTINA L. SEALE

MAY 8, 2009



DOCKET NO. 2009-12-S

**Application of Aqua South Carolina, Inc. for
Approval of a New Schedule of Rates and
Charges for Sewerage Services Provided to
Customers in Spartanburg County**

SURREBUTTAL TESTIMONY OF CHRISTINA L. SEALE

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO: 2009-12-S

IN RE: APPLICATION OF AQUA SOUTH CAROLINA, INC.

FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES

FOR SEWERAGE SERVICES PROVIDED TO CUSTOMERS

IN SPARTANBURG COUNTY

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Christina L. Seale. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff ("ORS") as an auditor.

**Q. DID YOU PRE-FILE DIRECT TESTIMONY ON BEHALF OF ORS IN
THIS PROCEEDING?**

A. Yes. I pre-filed direct testimony in this proceeding on April 16, 2009.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to an issue,
concerning ORS's federal income tax adjustment, raised in the rebuttal testimony
filed by Brian Devine on April 27, 2009 for Aqua South Carolina, Inc. ("Aqua
SC").

1 **Q. PLEASE ELABORATE ON ORS'S CALCULATION OF THE FEDERAL**
2 **INCOME TAX ADJUSTMENT.**

3 **A.** ORS determined its income tax adjustment by considering the information
4 received from Aqua SC during ORS's examination. ORS requested copies of
5 Aqua SC's federal and state income tax returns as well as any consolidated tax
6 filings. ORS received income tax returns showing Aqua SC filing as an
7 individual entity. Aqua SC did not provide consolidated income tax returns or
8 any documentation supporting the 35% federal income tax rate during ORS's
9 examination.

10 **Q. HAS THE COMPANY SINCE PROVIDED ANY UPDATED**
11 **INFORMATION IN REGARDS TO THE FEDERAL INCOME TAX**
12 **RATES?**

13 **A.** Yes. On May 5, 2009 ORS received a consolidated federal income tax
14 return for Aqua America, Inc. ORS examined these returns and verified that
15 Aqua SC was a part of the consolidated return and its federal income tax is based
16 on the 35% tax bracket. Therefore, ORS revised its federal income tax
17 adjustment using the 35% tax rate.

18 **Q. DO YOU HAVE ANY CHANGES TO THE EXHIBITS ATTACHED TO**
19 **YOUR DIRECT TESTIMONY?**

20 **A.** Yes. Some of the exhibits have changed as a result of the updated federal
21 income tax adjustment. Revised exhibits are attached to my surrebuttal
22 testimony.

1 **Q. WHAT IS THE RESULTING OPERATING MARGIN AFTER THE**
2 **UPDATED INCOME TAX ADJUSTMENT?**

3 **A.**The resulting operating margin is 18.23%, as shown on Revised Audit
4 Exhibit CLS-1.

5 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

6 **A.**Yes it does.

Aqua South Carolina, Inc.
Docket No. 2009-12-S
Operating Experience and Operating Margin
For the Test Year Ended June 30, 2008

	(1)	(2)	(3)	(4)	(5)
	Application Per Books	ORS's Proposed Accounting & Pro forma Adjustments	After ORS's Proposed Accounting & Pro forma Adjustments	Applicant's Proposed Increase	After Applicant's Proposed Increase
<u>Operating Revenues</u>					
Sewer Service	99,283	1,085 (A)	100,368	108,838 (K)	209,206
<u>Total Operating Revenues</u>	\$ 99,283	\$ 1,085	\$ 100,368	\$ 108,838	\$ 209,206
<u>Operating Expenses</u>					
Salaries, Wages & Benefits	\$ (2,118)	\$ 2,118 (B)	\$ 0	\$ 0	\$ 0
Contractual Services - A&G	116,116	(4,148) (C)	111,968	7,601 (L)	119,569
O&M Management	25,542	(13,410) (D)	12,132	0	12,132
Other	14,085	(13,987) (E)	98	0	98
Bad Debt	235	0	235	258 (M)	493
Depreciation	3,641	(418) (F)	3,223	0	3,223
Rate Case	0	6,816 (G)	6,816	0	6,816
Other Taxes	795	(25) (H)	770	807 (N)	1,577
Income Taxes (State and Federal)	(22,177)	22,177 (I)	0	23,623 (O)	23,623
<u>Total Operating Expenses</u>	\$ 136,119	\$ (877)	\$ 135,242	\$ 32,289	\$ 167,531
<u>Net Operating Income (Loss)</u>	\$ (36,836)	\$ 1,962	\$ (34,874)	\$ 76,549	\$ 41,675
Less: Interest Expense	5,620	(2,082) (J)	3,538	0	3,538
<u>Total Income (Loss) for Return</u>	\$ (42,456)	\$ 4,044	\$ (38,412)	\$ 76,549	\$ 38,137
<u>Operating Margin</u>	<u>-42.76%</u>		<u>-38.27%</u>		<u>18.23%</u>

Aqua South Carolina, Inc.
Docket No. 2009-12-S
Explanation of Adjustments
For the Test Year Ended June 30, 2008

Revenues and Expenses	Adj.#	Description	\$ ORS	\$ Applicant
<u>ORS's Proposed Accounting and Pro forma Adjustments</u>				
(A) Sewer Service	1	To adjust sewer revenues to reflect actual customer units.	1,085	1,085
(B) Salaries, Wages & Benefits	2	To reverse a payroll credit accrual and remove salaries, wages and benefits. These services are provided by Aqua SC's management company.	2,133	2,201
	3	To reclassify training costs more appropriately charged to O&M Management expenses.	(15)	0
		Total Salaries, Wages & Benefits Adjustment	2,118	2,201
(C) Contractual Services - A&G	4	To reflect cost of wastewater gallons treated per a modified usage report.	(10,248)	(10,248)
	5	To reflect an increase in wastewater treatment charges.	9,579	9,579
	6	To remove a double booked account.	(718)	0
	7	To remove unsupported expenses.	(2,926)	0
	8	To adjust the fee charged by SJWD for actual billing collections during the test year.	165	0
		Total Contractual Services - A&G Adjustment	(4,148)	(669)
(D) O&M Management	9	To remove costs associated with possible acquisitions.	(13,425)	(13,889)
	10	To reclassify training costs previously charged to Salaries, Wages & Benefits.	15	0
		Total O&M Management Adjustment	(13,410)	(13,889)
(E) Other	11	To remove costs associated with possible acquisitions.	(464)	0
	12	To remove prior rate case expenses.	(12,668)	(12,668)
	13	To remove late fees.	(163)	(163)
	14	To remove taxes incurred outside the test year, but included in the cost of service.	(692)	0
		Total Other Adjustment	(13,987)	(12,831)
(F) Depreciation	15	To adjust depreciation on all plant in service.	(418)	0
(G) Rate Case	16	To amortize rate case expenses of \$20,448 over a three-year period.	6,816	6,667
(H) Other Taxes	17	To adjust the gross receipts taxes associated with the revenues after ORS's accounting and pro forma adjustments.	25	9
	18	To remove license fees incurred outside the test year, but included in the cost of service.	(50)	0
		Total Other Taxes	(25)	9

Aqua South Carolina, Inc.
Docket No. 2009-12-S
Explanation of Adjustments
For the Test Year Ended June 30, 2008

Revenues and Expenses	Adj.#	Description	\$ ORS	\$ Applicant
<u>ORS's Proposed Accounting and Pro forma Adjustments (Continued)</u>				
(I) Income Taxes (State & Federal)	19	To remove the effect of negative income taxes.	22,177	7,501
(J) Interest	20	To synchronize interest expense with the Company's investment in plant.	(2,082)	0
<u>Applicant's Proposed Increase Recalculated by ORS</u>				
(K) Sewer Service	21	To adjust sewer revenues for the Applicant's proposed rate increase.	108,838	108,838
(L) Contractual Services - A&G	22	To adjust SJWD District fee based on the Applicant's proposed rate increase.	7,601	7,695
(M) Bad Debt	23	To adjust the bad debt expense to reflect the Applicant's proposed rate increase.	258	259
(N) Other Taxes	24	To adjust gross receipts taxes associated with the Applicant's proposed rate increase.	807	886
(O) Income Taxes (State & Federal)	25	To adjust income taxes using net income after the Applicant's proposed increase.	23,623	38,250

Aqua South Carolina, Inc.
Docket No. 2009-12-S
Computation of Income Taxes
For the Test Year Ended June 30, 2008

Description	After Applicant's Proposed Increase
Total Operating Revenues	\$ 209,206
Less: Operating Expenses	143,908
Less: Interest Expense	<u>3,538</u>
State Taxable Income	61,760
Less: State Income Taxes @ 5%	<u>3,088</u>
Federal Taxable Income	58,672
Federal Income Taxes @ 35%	<u>20,535</u>
Total State and Federal Income Taxes	<u>\$ 23,623</u>